

**Part III Actuarial Memorandum**  
**Highmark BCBSD, Inc.**  
**d/b/a Highmark Blue Cross Blue Shield Delaware**  
**Individual Rate Filing**  
**Effective January 1, 2020**

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## **I. General Information**

### **Document Overview**

This document contains the Part III Actuarial Memorandum for Highmark Blue Cross Blue Shield Delaware's (Highmark DE) individual block of business rate filing, for products with an effective date of January 1, 2020. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I Unified Rate Review Template, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This information may not be appropriate for other purposes.

This information is intended for use by the State of Delaware Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of Highmark DE's rate filing. However, we recognize that this certification may become a public document. Highmark DE makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this actuarial memorandum that would result in the creation of any duty or liability under any theory of law by Highmark DE.

The results are actuarial projections. Actual experience is likely to differ for a number of reasons, including population changes, claims experience, and random deviations from assumptions.

### **I.1 Company Identifying Information:**

- Company Legal Name: Highmark Blue Cross Blue Shield Delaware.
- State: The State of Delaware has regulatory authority over these policies
- HIOS Issuer ID: 76168
- Market: Individual
- Effective Date: January 1, 2020

### **I.2 Company Contact Information:**

- Primary Contact Name: [REDACTED]
- Primary Contact Telephone Number: [REDACTED]
- Primary Contact Email Address: [REDACTED]

## II. Proposed Rate Changes

For all rate changes by plan, see the 'Cum'tive Rate Change % (over 12 mos prior)' found in Worksheet 2, line 1.11 of the URRT. The rate change varies by plan due to an update in several of our pricing factors and changes in cost sharing required to meet Actuarial Value and other cost sharing restrictions under the Affordable Care Act as well as mappings between discontinued and new plans.

The proposed average rate decrease is being driven by unanticipated improvement in the base claims experience.

The rate development in this filing is based on certain assumptions we have had to make at this point in time. We have accounted for the elimination of the Individual Mandate penalty and the lack of CSR funding in 2020 by using adjustment factors outlined in this memorandum. Additional assumptions include that advance payment of premium credits (APTCs) will continue until the end of 2020, there will be no significant changes in legislation, regulations or otherwise (i.e. rules, regulatory guidance, etc.) impacting the ACA market, and there will not be any additional QHP issuers participating in the Marketplace in 2020. In addition, there are other uncertainties that may directly or indirectly affect an already unstable insurance market and ultimately, rates. If any of these assumptions are ultimately incorrect or additional developments occur that similarly have a detrimental impact to the market, modifications to the rate development may be necessary. As a result, Highmark DE reserves the right to submit a revised filing.

This rate Filing does not account for a State of Delaware health insurance tax/assessment on Highmark Delaware to fund a proposed Delaware Health Insurance Individual Market Stabilization Reinsurance Program ("Reinsurance Program"), as proposed in Delaware House Bill No. 176. As of the date of this rate Filing, House Bill No. 176 has been introduced in the Delaware legislature, but has not been passed by the legislature or signed into law. If House Bill No. 176 is enacted into law and if Highmark Delaware becomes subject to a State of Delaware health insurance tax/assessment in 2020, modifications to the rate development may be necessary. Under such circumstances, Highmark Delaware respectfully reserves the right to submit revised filings, and appreciates the opportunity to do so.

Additionally, Highmark Delaware is aware that Dr. Kara Odom Walker, Secretary of the Delaware Department of Health and Social Services, on behalf of the State of Delaware, intends to submit in July 2019 an application to the Centers for Medicare and Medicaid Services ("CMS") and to the United States Department of Treasury for a waiver of certain provisions of the Affordable Care Act, as authorized by section 1332 of that Act. If this application for a "1332 waiver" is approved by CMS for the purpose of establishing a Reinsurance Program to begin in 2020, modifications to Highmark Delaware's rate development may be necessary. Under such circumstances, Highmark Delaware respectfully reserves the right to submit revised filings, and appreciates the opportunity to do so.

### **III. Experience and Current Period Premium, Claims, and Enrollment**

#### **III.1 Paid through Date:**

Experience Period claims were based on incurred calendar year 2018, paid through February 2019. This includes 2018 experience in Affordable Care Act-compliant plans. Highmark DE did not offer any transitional plans in 2018.

#### **III.2 Current Date:**

The current date shown represents a snapshot of February 1, 2019.

#### **III.3 Premiums in Experience Period:**

The premiums shown for the experience period were based on calendar year 2018 actual revenues with no MLR rebates.

As it is instructed on page 15 of the “Draft 2020 Unified Rate Review Instructions” (May 2019 released), the MLR rebates should not be reflected in the premium.

#### **III.4 Allowed and Paid Claims Incurred During the Experience Period:**

- **Historical Experience:** We chose Highmark DE’s current experience for the individual block of business for the period January 1, 2018 through December 31, 2018, with claims paid through February, 2019 as the basis for the 2020 projected individual market pricing.
- **Claims Incurred During the 12-month Experience Period:** Worksheet 1, Section I shows our best estimate of the amount of claims that were incurred during the 12-month experience period for Highmark DE’s individual book-of-business. This section includes:
  - The amount of claims which were processed through Company’s claims system,
  - Claims processed outside of the Company’s claims system, and
  - Our best estimate of claims incurred but not paid as of the paid through date stated above.
- **Method for Determining Allowed Claims:** For non-capitated claims, the allowed charges are summarized from Highmark DE’s detailed claim-level historical data. This experience includes 2018 claims for Affordable Care Act compliant business. For capitated and other off-system claims, historical capitations and experience were tabulated and added to the claims.

- **Paid Claims:** We also summarized the paid claims from detailed member records. The paid-to-allowed ratio for the experience period reflects the 2018 plan designs chosen by each member.
- **Incurred but Not Paid (IBNR) Claims Estimate:** Highmark DE is using a completion factor of [REDACTED] to include IBNR claims in allowed charges. The IBNR completion factor was developed using our corporate reserving system for Highmark DE's individual business. We applied it equally to both paid and allowed total claims (as a change to utilization) to complete the experience.

#### **IV. Benefit Categories**

The index rate of the experience period was summarized at the defined benefit categories included in Worksheet 1, Section II of the URRT.

The data provided in this section closely adheres to the preferred definitions of the Benefit Categories included in the URRT instructions, including the "Other Medical" category. The "Other Medical" category units reflect visits for PDN/home health, trips for ambulance and procedures for DME/prosthetics. Prescription drugs utilization were converted to a "per 30-day" script count.

#### **V. Projection Factors**

##### **V.1 Trend Factors**

This development of the CY2020 rates reflects an annual trend rate of [REDACTED]% ([REDACTED]% cost, [REDACTED]% utilization). These trends reflect Highmark DE's expectations regarding increases in in-network contractual reimbursement and out-of-network costs. These estimates measure and normalize for benefit leverage, population aging, and historical changes for fee schedules, as well as company-wide utilization management programs, and external trend drivers.

The trend represents a blended average for all types of service and is applied to the aggregate experience for pricing. These trends represent assumed community-wide expectations. Claim variations due to the specific projected enrolled population in this single risk pool are reflected in the morbidity adjustment.

##### **V.2 Changes in the Morbidity of the Population Insured**

We applied an adjustment of approximately [REDACTED]% to reflect the anticipated changes in the average morbidity of the covered population (beyond allowable rating factors). This morbidity adjustment reflects multiple changes including blending of the ACA business with new members from multiple sources including uninsured and the employer markets.

##### **V.3 Changes in Demographics**

We project that the average rating factor (age, tobacco load and area combined) will increase by about [REDACTED]% due to the change in the population. This is primarily due to the expectation that the new members from the group and/or uninsured populations to be slightly older than

the population in the underlying experience. This increases the projected allowed claims (utilization) by the same amount.

#### **V.4 Changes in Benefits**

There is no change in benefits related to the essential health benefit (EHB) categories so the factor is set to 100%. The cost sharing changes for the EHBs are captured in the paid to allowed ratio factors discussed in the AV and Cost Sharing Design of Plan section X.1.

#### **V.5 Changes in Other**

The 100% factor represents the changes in utilization due to cost sharing requirements, network, pharmacy rebates, and hospital/physician settlements.

#### **Impact of Health Insurance Coverage Mandate**

The Other factor was increased by 100% to reflect the market uncertainty from the elimination of the health insurance coverage mandate. This deterioration is reflected in the filing by multiplying the Original other factor of 100% by 200% to arrive at a final Other factor of approximately 200%.

### **VI. Manual Rate Adjustments**

Highmark DE's individual experience is fully credible. No manual rate is developed or used in this projection.

### **VII. Credibility of Experience**

The experience is from Highmark DE's individual book of business in 2018. It is large enough to be fully credible. Our results are based 100% on the experience rate, as adjusted.

### **VIII. Index Rate**

The Index Rates as shown on Worksheet 1 of the URRT are simply the single risk pool average allowed claims for the Essential Health Benefits for the experience and projected populations, respectively, for Highmark DE. For the experience period, only non-grandfathered plans are included. The projection period Index Rate is not adjusted for reinsurance or risk adjustment programs or any other fee.

### **IX. Market Adjusted Index Rate [MAIR]**

The Market Adjusted Index Rate is the Projected Index Rate further adjusted for risk adjustment and the exchange fee.

#### **IX.1 Projected Reinsurance PMPM**

No reinsurance program for Highmark DE is assumed at this time.

## IX.2 Projected Risk Adjustments PMPM:

[REDACTED]

[REDACTED]

## IX.3 The Exchange User Fee %

The [REDACTED] % value shown in worksheet 1 of the URRT is developed by multiplying the [REDACTED] % exchange user fee by the assumed percentage of on exchange membership. This calculated amount is then divided by the paid-to-allowed factor to bring it to an equivalent allowed claims basis and adjusted further for the composite effect of catastrophic eligibility.

## X. Plan Adjusted Index Rates [PAIR]

The Plan Adjusted Index Rates can be found on line 3.10, Worksheet 2 of the URRT. The PAIR rates calculated by applying the allowable rating factors as described below to the Market Adjusted Index Rate.

### X.1 AV and Cost Sharing Design of Plan

The AV and cost sharing allowable rating factor is comprised of the following components:

- The utilization due to differences in cost sharing is based on the factors adopted by the risk adjustment methodology relative its weight average. No differences due to health status are in these adjustments.
- The pricing AV for the benefits and cost sharing of the plan and a CSR load for the on exchange silver plan.

### Impact of Non-Payment of Cost Sharing Reduction Subsidies

In accordance with the Department's guidance, we have applied an additional adjustment to our AV pricing values for those Silver plans not offered exclusively off-exchange. This adjustment factor was [REDACTED] and represents the non-payment of Cost Sharing Reduction subsidies.

### X.2 Provider Network Adjustment

The provider network adjustments are developed by dividing the plan level network factor by the overall weighted average from all plans.

### **X.3 Benefits in Addition to EHB**

There are no benefits in addition to EHB.

### **X.4 Administrative Expense**

The proposed rates reflect internal administrative costs including quality improvement administrative expenses. This cost was developed based on standard expense allocation methods.

### **X.5 Taxes and Fees:**

The following fees were added:

- [REDACTED] PMPM for Risk Transfer User Fee.
- [REDACTED]% for the Health Insurance Provider Fee

### **X.6 Profit (or Contribution to Surplus) & Risk Margin:**

The proposed rates reflect a [REDACTED]% risk/contribution to surplus margin for all products and plans.

### **X.7 Catastrophic Adjustment**

For catastrophic plans, we use a [REDACTED] factor for the specific eligibility adjustment.

## **XI. Calibration**

### **XI.1 Age Curve Calibration:**

The projected weighted average age factor for billable members is [REDACTED]. This factor is calculated by dividing the all members age factor of [REDACTED] by the ratio of billable members to total members [REDACTED]. The age curve calibration factor is [REDACTED] = [REDACTED].

### **XI.2 Geographic Calibration Factor:**

The projected weighted average geographic factor is [REDACTED]. Each Plan Adjusted Index Rate represents the rate for an average member with a geographic factor of [REDACTED]. The geographic calibration factor is [REDACTED] = [REDACTED].

### **XI.3 Tobacco Calibration Factor:**

The projected weighted average tobacco factor is [REDACTED]. Each Plan Adjusted Index Rate represents the rate for an average member with a tobacco factor of [REDACTED]. The tobacco calibration factor is [REDACTED] = [REDACTED].

#### **XI.4 Consumer Adjusted Premium Rate Developments:**

The calibrated plan adjusted index rate represents the base rate for an age factor of ■■■, geographic rating factor of ■■■ and tobacco rating factor of ■■■. Thus, the approximate premium for a specific member can be derived by multiplying this rate by the HHS age curve factor, the rating area factor on Worksheet 3 of the URRT, and the appropriate tobacco factor. Please note that this method will only produce approximate rates due to URRT rounding constraints.

#### **XII. Projected Loss Ratio**

The projected loss ratio for 2020 using the federally prescribed MLR methodology is ■■■%.

#### **XIII. AV Metal Values**

The AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based the Federal AV Calculator. Some plans did require an adjustment to the inputs entered into the AV calculator. Screen shots and certifications for these plans were submitted as part of Highmark DE's QHP application.

#### **XIV. Membership Projections**

Membership projections reflect Highmark DE's expectations for 2020. These projections reflect expected changes in market share due to market competition, relative price levels, and changes in plan offerings (where applicable).

Highmark DE expects membership in 2020 to follow a similar metal level distribution as the Individual ACA experience period in the markets where plans will continue to be offered.

For the Silver level plans, the projected membership by cost sharing subsidy levels is based on the observed distribution of ACA members that were eligible under the federal poverty levels as determined by the federal health insurance exchange. The projected enrollment by plan and subsidy level is as follows:

CSR Silver Plan Membership Distribution			
FPL	Subsidy Level	% of Silver Membership	% of Total Membership
<150%	94%	■■■	■■■
150%-200%	87%	■■■	■■■
200%-250%	73%	■■■	■■■
≥250%	70%	■■■	■■■
Total		■■■	■■■

## **XV. Terminated Plans and Products**

Plans in the 2018 experience period that will no longer be available in 2020 can be found in Exhibit I.

Highmark DE also has some plans that were offered only in 2019 (not offered in the experience period or in the projection period). These plans are shown in Exhibit I.

## **XVI. Plan Type**

The Plan types listed in Worksheet 2, Section I of the Part I Unified Rate Review Template describe Highmark DE's plans adequately.

## **XVII. Actuarial Certification**

I, [REDACTED] am a member of the American Academy of Actuaries and meet its qualification standards for actuaries issuing statements of actuarial opinions in the United States. This filing is prepared to accompany Highmark DE's rate filing for the individual combined market on and off the Delaware Exchange.

I hereby certify that the projected index rate is, to the best of my knowledge and understanding:

- In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80 and 147.102),
- Developed in compliance with the applicable Actuarial Standards of Practice
- Reasonable in relation to the benefits provided and the population anticipated to be covered
- Neither excessive nor deficient.


I certify that the index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.

I certify that the AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template for all plans. The AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based on the Federal AV Calculator. If any adjustments were required outside of the AV Calculator, appropriate certification has been provided to CMS through the QHP application process.

I certify that the geographic rating reflect only differences in the costs of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area.

The Part I Unified Rate Review Template does not demonstrate the process used by Highmark DE to develop the rates. Rather, it represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of

qualified health plans for Federally facilitated exchanges and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

Signed: 

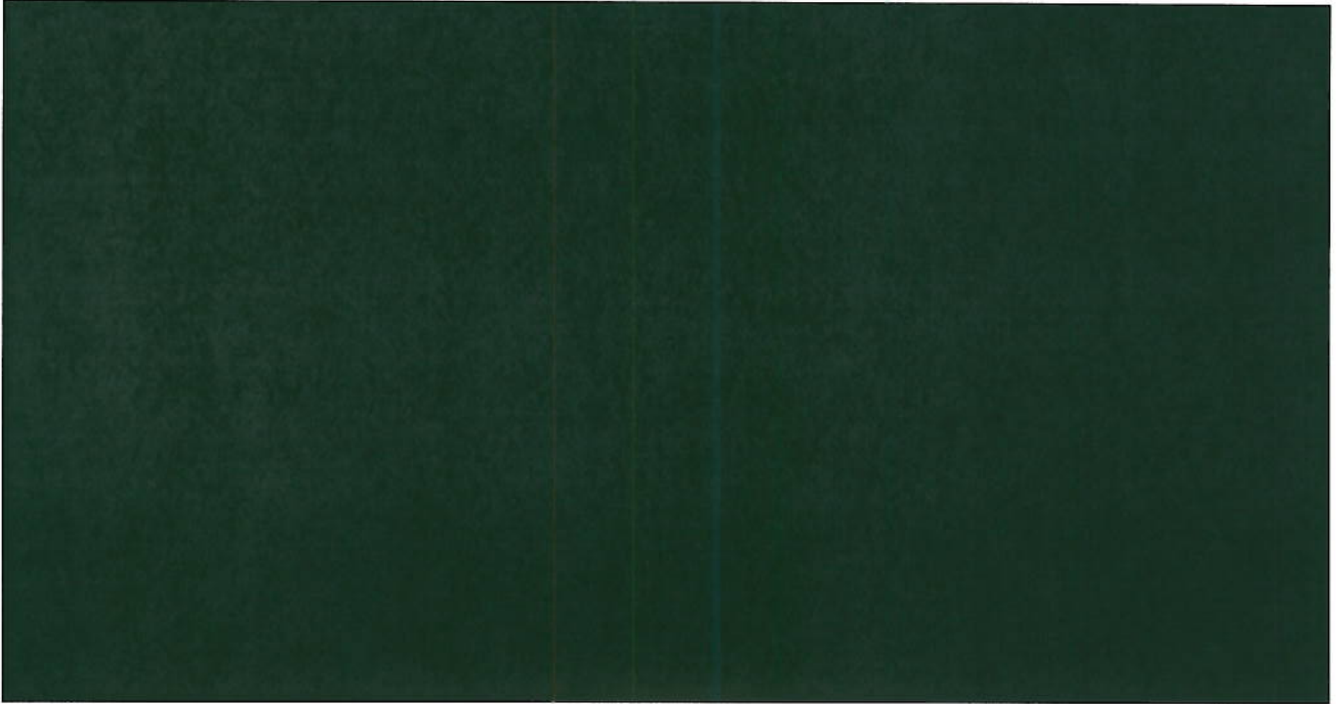
Title: 

Date: June 19, 2019

**XVIII.**

**Exhibit I**

**Highmark Blue Cross Blue Shield Delaware**



## **ACTUARIAL MEMORANDUM**

### **Highmark Blue Cross Blue Shield Delaware**

#### **Individual Rate Filing- January 1, 2020**

I, [REDACTED], am a member of the American Academy of Actuaries and meet its qualification standards for preparing individual rate filings. As a consulting actuary, I was requested by Highmark, Inc. ("Highmark") to review its rate filing for the individual market on and off the Delaware Exchange. The confidential material presented in this filing was prepared for the specific purpose of submitting the rating formula for the DE Insurance Department and may not be appropriate for other purposes. This filing represents rates for individuals sold or renewed effective January 1, 2020. The rates are guaranteed until December 31, 2020.

To the best of my knowledge and judgment, the following are true with respect to this filing:

1. Rates are established in accordance with generally accepted actuarial principles and the applicable Actuarial Standards of Practice. They are not excessive, inadequate, or unfairly discriminatory. Rates are reasonable in relationship to the benefits provided. However, it is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent that actual experience is different from the assumptions used in developing the rates, the actual results will also deviate from the projected amounts.
2. In compliance with all applicable Delaware and Federal Statutes and Regulations (45 CFR 156.80 and 147.102).
3. The rating factors and rating methodology are reasonable and consistent with Highmark's business plan at the time of the filing.

[REDACTED]  
[REDACTED]  
Member, American Academy of Actuaries  
June 17, 2019